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C O N F I D E N T I A L SECTION 01 OF 02 TASHKENT 001333

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SUBJECT: ADB CHIEF ON PROJECTS IN UZBEKISTAN

Classified By: CDA Brad Hanson for reasons 1.4 (b) and (d).

Summary

¶1. (C) The Asian Development Bank depends on a combination of official statistics, a "huge problem" according to the bank's country director, and independent analysis to assess the Uzbek economy. The Uzbek mentality is to make things better than they actually are, but a lack of know how in gathering data also is a problem. ADB currently is implementing projects to improve the government's budget implementation and expenditure tracking capabilities and promote education reform. It expects to begin an equity lending project soon involving local banks as a way to gradually promote reform of the banking sector. End summary.

¶2. (C) Asian Development Bank (ADB) Country Director Hong Wei briefed the Charge on the bank's ongoing activities in Uzbekistan July 13. Hong said that ADB assesses the Uzbek economy based on a mix of official statistics and independent analysis in coordination with the World Bank and International Monetary Fund. He said that the Government of Uzbekistan's official statistics are a "huge problem," particularly inflation data. Hong said that the problem is both Uzbek mentality in trying to pad statistics to make the economy look better than it is, and a general lack of know how in collective valid statistics. He noted that he views official trade statistics as more reliable than other official economic indicators, because they can be double checked at the other end with Uzbekistan's trading partners' statistics.

Treasury Project

¶3. (C) Hong said that ADB currently is implementing a major project on effective budget implementation. ADB estimates that there are approximately 50,000 budgetary organizations in Uzbekistan, each of which has both a budgetary and an extrabudgetary account, which covers such obligations as pensions, veterans' benefits, etc. Funds are allocated to these accounts each year, but the Ministry of Finance is able to track expenditures only through a complex and time consuming reconciliation process. The problem, according to Hong, is that the budget does not use clear expenditure classifications, meaning that the Ministry cannot easily tell who authorized an expenditure or for what purpose. In addition to concerns about possible fiscal malfeasance, Hong said that this leads to inefficient budget implementation where some accounts run out of money while funds sit idle elsewhere.

¶4. (C) ADB's project is designed to introduce a single treasury system with clear account classifications and enhanced tracking capabilities. Already, the single treasury has been piloted in six provinces. Hong expects it will be implemented nationwide by the end of 2007. In addition, the commitment and expenditure of funds will be separated into different functions, and both budget planning and execution data will be made public starting with the 2009 budget. The government also has agreed to bring some 20-25 extrabudgetary funds, which collectively accounted for around 24% of the 2004 budget, onto the books.

¶5. (C) Once this is accomplished, ADB will begin to implement a project designed to unify the Government of Uzbekistan's budget planning. Hong said that currently there are several different processes, which are not coordinated with one another. This results in situations, for example, where the government budgets money to build a new school, but has no funds to operate the school once it is built. Hong said that overall budget planning needs to be consolidated in one place, with responsibility for preparation of individual budgets decentralized to "front line" ministries. Additionally, ADB hopes to introduce the concept of performance-based budgeting, as Hong said that currently there is no linkage between inputs and results in the government's budget system.

Private Sector Financing

¶6. (C) Hong said that ADB has traditionally been involved only in the public sector in Uzbekistan, with agriculture, infrastructure, and basic education as the bank's primary "flavor." He said that the Government of Uzbekistan has

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asked ADB to become more involved in the private sector; the bank is willing in principle but has yet to find appropriate projects. Hong said that he thinks ADB is close to starting a project with local banks in an equity lending arrangement. ADB would work with the local banks to improve their governance structure and strategy, and eventually provide funds which could be loaned to private enterprises. Hong said ADB's strategy was to support the smaller banks to the point that they could compete successfully with the large state-owned banks as a way to gradually promote reform of the Uzbek banking sector.

Education Reform

¶7. (C) Hong said that ADB continues to work on education reform, particularly in rural areas. The bank pioneered textbook rental schemes in several rural areas as a way to make education more affordable to the population and to generate funds for new textbook development and printing. Hong said Uzbekistan is currently spending nine to 11 percent of its GDP on education. The funds are not spent efficiently, however, and allocations are based entirely on the number of schools in operation instead of the number of students attending those schools. Hong said that part of the problem again is that the government does not have accurate information and that agencies with information will not share it with one another. ADB is working to improve the government's capacity to collect and analyze accurate statistics and to force interagency coordination as early as possible.

Comment

¶8. (C) Hong has a point when he blames many of the government's problems on the lack of internal coordination

and sharing of information. Post often notices that Uzbek government agencies do not seem to talk to one another and often times appear to be playing off of different sheets of music. Ultimately, coordination takes place at the top as decisions of any substance are made in the Presidential Apparatus, if not by President Karimov himself. ADB's attempts to promote greater coordination and information sharing are well thought out to help the government move forward. However, we are a bit skeptical that the secretive and corrupt Government of Uzbekistan will agree to a truly transparent and accountable budgetary system.

Bio Note

19. (SBU) Hong Wei is a Chinese citizen who studied economics at Georgetown University. He speaks excellent English. After returning to China from his studies in the U.S., he worked for a period as a Chinese government economist improving the efficiency of Chinese National Railways. His wife and two daughters chose to remain in Manila because of schooling. We found Hong a sharp, candid, friendly interlocutor, who understands the Government of Uzbekistan well based on his own background in authoritarian China.

HANSON